

May 8, 2000

Historically High . . . or Historically Low?? – You Be the Judge

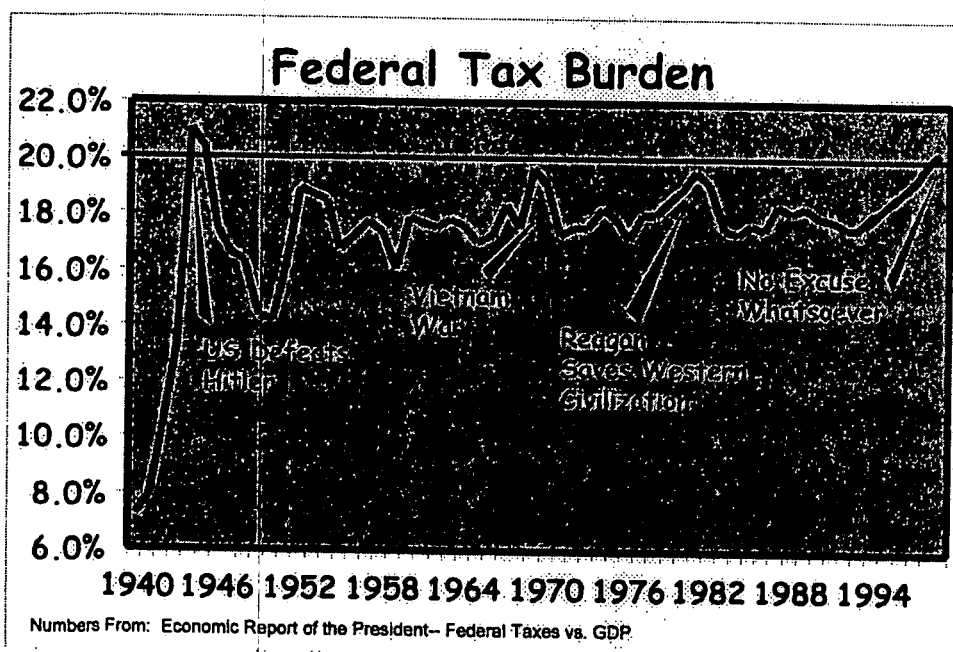
The Total Family Tax Burden

On March 26, 2000, the *Washington Post* reported that “Federal Tax Level Falls for Most.” Other newspapers, including the *New York Times*, repeated the theme. Citing the Congressional Budget Office, Office of Management and Budget, and others, these stories made the case that the federal income tax burden on middle-income families was no higher today than several decades ago. The message was clear — Why bother about tax cuts when the tax burden is already so low?

Congress *has* successfully reduced the income tax burden on some middle-class families in recent years, but other taxes have taken their place. At the federal, state, and local level, governments are becoming much more efficient at separating hard-working families from their income. Result: The total family tax burden *has doubled* in the past four decades.

Record Federal Tax Burden

Last year, Americans earned \$9.1 trillion, but federal receipts took \$1.8 trillion of that income. That’s a tax burden of 20 percent, the highest level since World War II. More

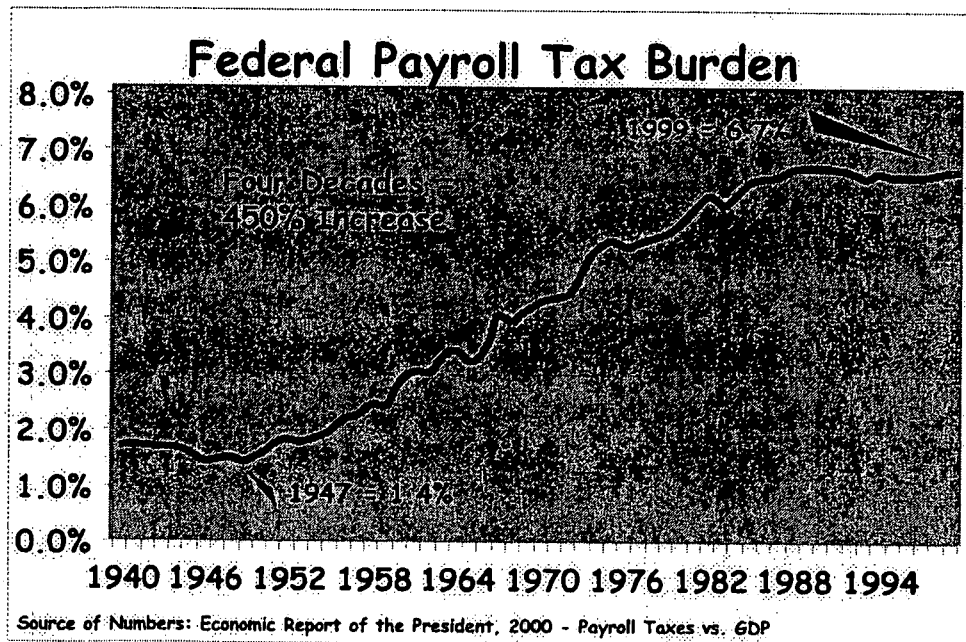


significantly, past spikes in the overall tax burden have been tied to economic factors or world affairs — World War II, the Vietnam War, the Cold War, and economic recessions.

As is evident from the graph on page 1, the current spike has taken us above 20 percent for the first time since World War II, yet we are experiencing neither a recession nor a major global conflict. The federal government is not only consuming historic portions of our income, it also has no excuse for doing so.

Growing Payroll Taxes

Growing payroll tax collections are the chief villain here. The *Post* article focused solely on income taxes, but payroll taxes represent the fastest growing burden on middle-income families today. In fact, they have risen so fast that, today, eight out of ten families pay more money to the



federal government through payroll taxes than through income taxes. Any report on “family tax burden” that fails to address rising payroll tax burdens is wholly misleading.

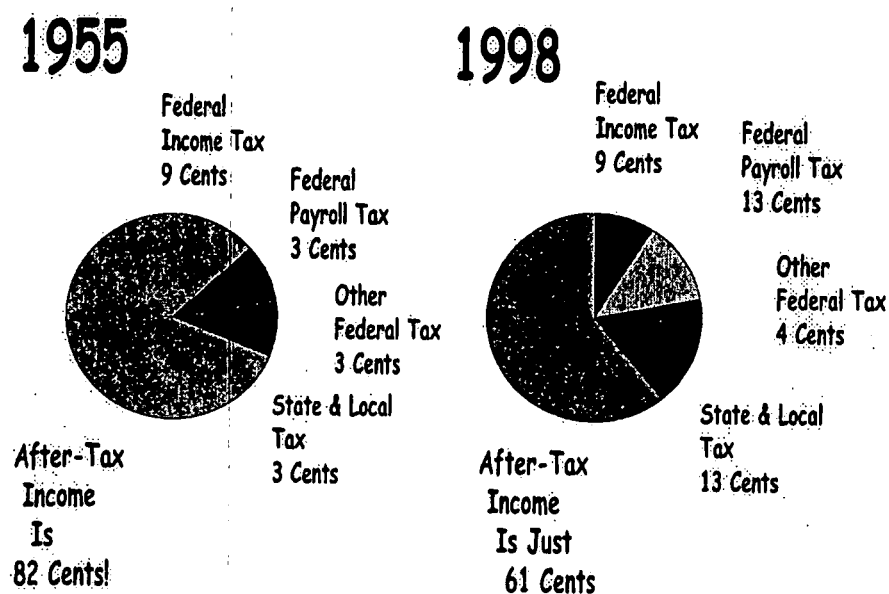
What About the States?

The *Post* article also ignores the impact states, cities, and local taxing districts have on family tax burdens. State and local taxes have literally exploded in recent decades. Four decades ago, state and local taxes consumed 7.9 percent of our nation’s income. Today, that level is 12.4 percent [Economic Report of the President, 2000].

Tax Burden Doubled

Combined, the tax burden of federal payroll taxes and all state and local taxes has almost doubled in the past four decades, from about 10 percent to over 19 percent. The result, when combined with federal income, corporate, excise, and other taxes is a family tax burden that hovers near record levels.

Perhaps the best illustration of the real tax burden faced by families is to compare today's tax burden of an average family relative to its income four decades ago and today. Below are two charts depicting median two-earner family tax burdens in 1955 and 1998.



Source: National Taxpayers Union -- Amount of Tax Per \$1 of Median Family Income

As the *Post* observed, the percent of income taken by the federal income tax is the same — 9 percent. But the total tax burden for the family today is 39 percent, up from 18 percent in 1955. Federal payroll taxes and state and local taxes have literally doubled the total tax burden faced by families. As a result, the middle-income family today has *25 percent less disposable income* than a similar family in 1955.

Bottom Line

Despite recent reductions in the *income* tax burden for families, the *overall* tax burden for families continues to rise to record levels. Efforts to reduce this burden have focused on income taxes because income tax cuts offer the best opportunity for success. Any effort to address the payroll tax is necessarily tied to overall reform of the Social Security system. And Congress has

no authority to reduce the state and local tax burden. If Congress is going to succeed in reducing the record tax burden shouldered by American families, it will have to be through cuts in the federal income tax.

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